



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
auditors.nebraska.gov

December 18, 2024

Corey Steel, State Court Administrator
Nebraska Supreme Court
1211 State Capitol
Lincoln, Nebraska 68509

Dear Mr. Steel:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska (State), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 18, 2024. In planning and performing our audit of the financial statements, we considered the State's system of internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

In connection with our audit described above, we noted certain internal control or compliance matters related to the activities of the Nebraska Supreme Court (Supreme Court) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of the Supreme Court's management, are intended to improve internal control or result in other operating efficiencies.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Comment Number 1 (Expenditures Recorded in the Wrong Fiscal Year) to be a significant deficiency.

This comment will also be reported in the State of Nebraska’s Statewide Single Audit Report Schedule of Findings and Questioned Costs.

Draft copies of this management letter were furnished to the Supreme Court to provide management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this management letter. *Government Auditing Standards* require the auditor to perform limited procedures on the responses. The responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

The following are our comments and recommendations for the year ended June 30, 2024.

1. Expenditures Recorded in the Wrong Fiscal Year

The Supreme Court recorded \$2,505,610 of expenditures in the wrong fiscal year.

The error was related to a contract with an original price of \$4,764,600 for a project to upgrade audio-visual technology in over 100 county and district courtrooms across the State. According to the Supreme Court’s own website (<https://supremecourt.nebraska.gov/>), as of June 30, 2023, more than 70% of the courtrooms had received the upgrades. However, the Auditor of Public Accounts (APA) determined that only \$529,984, or approximately 11% of the contract, had been recorded as expenditures in the accounting system for this project for fiscal year 2023.

Upon the APA’s inquiry to determine whether other expenditures should have been recorded for fiscal year 2023, the Supreme Court identified 22 more documents, totaling \$2,505,610, of additional expenditures recorded in fiscal year 2024 for installations completed in fiscal year 2023. Therefore, the Supreme Court recorded them in the wrong fiscal year. The APA proposed a financial statement adjustment to remove the expenditures from fiscal year 2024 and reclassify the activity in the beginning fund balance. State Accounting posted the adjustment.

Good internal controls require procedures to ensure that all financial transactions are recorded in the correct fiscal year to prevent a material misstatement in the financial statements.

Without such procedures, there is an increased risk of a material misstatement of the financial statements.

We recommend the Supreme Court implement procedures to ensure transactions are reviewed and recorded in the correct fiscal year.

Supreme Court Response: The Administrative Office of the Courts and Probation (AOC) will review procedures with a goal of properly accounting for prior fiscal year expenditures throughout the fiscal year.

2. Court Order Approval

The Judicial User System to Improve Court Efficiency (JUSTICE) application is the Supreme Court’s case and financial management system for Nebraska trial courts, and DOCKET is a module within JUSTICE used to issue court orders affixed with the Judge’s signature.

The Judge Staff role in JUSTICE granted users the ability to create and issue Judge-signed court orders through DOCKET and was assigned to 311 users, as shown below by job title. As a result, these users were able to create and issue orders affixed with the Judge’s signature without formal documentation to support the Judge’s approval of the order. Additionally, in some instances, the same court staff may have had access to court receipts, which would allow them to record non-monetary transactions (e.g., waiving fines) in JUSTICE.

Job Title	Count
Courtroom Clerks	148
Court Magistrates	81
Judicial Administration	26
IT Staff & System IDs	15
Accounting & Clerical Clerks	14
Division Manager/Director	11
Administrative Staff	5
Bailiff & Court Reporters	5
Part-Time Judges	2
District Court Staff	2
Other Agencies	2
Total	311

The Supreme Court’s process for staff to make a formal request for access to the Judge Staff role includes the submission of a request form. However, for 9 of 25 users tested with such access, the Supreme Court could not provide the request form required to be submitted. For eight of these nine users, the Judge Staff role access had been removed after testing was started.

A proper system of internal control requires procedures to ensure not only that documentation exists to support all requests for Judge Staff role access, but also such documentation is properly approved and maintained.

The lack of such procedures increases the risk of an unauthorized, signed Judge’s order not being identified in a timely manner. Additionally, the absence of the requisite documentation could create a lack of segregation of duties because staff with the ability to issue court orders may also handle court receipts and waive fines.

This issue has been noted since the fiscal year 2021 audit.

We recommend the Supreme Court implement procedures to ensure that each request for Judges Staff role access is formally documented, reviewed, and approved by the Supreme Court, as well as maintained for subsequent inspection. We also recommend the Supreme Court review the impact that access to this role may have upon the segregation of duties at its courts.

Supreme Court Response: The AOCPC understands that there is a risk related to the ability of someone other than the judge applying the judge’s signature to an order within the DOCKET subsystem of JUSTICE, the court’s case management system. This level of access is granted only to employees who work directly with the judges in and outside of the courtroom and only with the judge’s approval and oversight. However, the AOCPC will review the documentation process to determine if improvements can be made.

3. Asset Value and Completion Date Error

The Supreme Court failed to report the substantial completion date as June 30, 2024, for a software system project. When projects are substantially complete and the date is properly entered, the expenses move from construction-in-progress to the proper asset category – in this case, equipment – and the depreciation of the asset begins. As a result of this oversight, construction-in-progress (CIP) was overstated by \$2,560,418, equipment was understated by \$2,560,468, and depreciation was understated by \$71,125.

In its attempt to correct the original error, the Supreme Court recorded a journal entry in September 2024 to add the cost of this asset in the accounting system. However, the journal entry contained \$329,950 of additional erroneous costs – overstating the asset value. The Supreme Court also recorded the asset costs using an incorrect item code of “Other Fixed Assets” rather than “IT Software,” which caused depreciation to be calculated over 120 months instead of 36 months.

A proper system of internal controls requires procedures to ensure that accurate information, including substantial completion dates, cost, and item codes, are recorded in the State’s accounting system or reported to State Accounting.

Without such procedures, there is an increased risk of material misstatement of the financial statements.

We recommend the Supreme Court implement procedures to ensure asset costs, substantial completion dates, and depreciation item codes are entered appropriately into the State accounting system for the proper reporting of capital assets and depreciation in the financial statements.

Supreme Court Response: The AOCPC will review procedures with a goal of properly recording assets in the State accounting system.

4. Outstanding Liquidated Damages

The APA completes an attestation engagement on a rotational basis for each of the State's county courts, which are under the jurisdiction of the Supreme Court. During these attestation engagements, the APA found several cases on the Overdue Case Balance Reports with balances consisting of liquidated damages. Some of these cases date back more than 20 years. The APA has also determined that the courts are inconsistent in the recording and handling of liquidated damages cases. Specifically, the APA has the following concerns:

- The Supreme Court has failed to provide guidance to the county courts for collecting the overdue balances "by execution or otherwise," as prescribed by statute.
- Neither the Supreme Court nor the Nebraska Game and Parks Commission (Commission) has an accurate listing of cases with liquidated damages. The Supreme Court provided a report showing \$78,076 in outstanding liquidated damages. However, the Commission's report as of June 30, 2024, showed the total amount owed as \$203,401.
- Some county courts have waived liquidated damages cases, using nonmonetary receipts to remove the cases from their outstanding balances reports. Therefore, those waived cases are not reflected on the Supreme Court's listing. The APA found no statutory authority to waive liquidated damage cases.
- Some county courts have failed to record the case as liquidated damages in the court system; instead, the citation might be entered as restitution, which would not show up on the Supreme Court's listing.
- Cases that have a balance due in the future (current cases) also would not be reflected on the Supreme Court's listing.

Neb. Rev. Stat. § 37-613(1) (Cum. Supp. 2024) establishes the amount of certain liquidated damages and states, "Any person who sells, purchases, takes, or possesses contrary to the Game Law any wildlife shall be liable to the State of Nebraska for the damages caused thereby."

Neb. Rev. Stat. § 37-601 (Reissue 2016) requires the prosecution of all persons charged with violations of the Game Law, as follows:

All prosecutions for violations of the Game Law shall be brought in the name of the State of Nebraska before any court having jurisdiction thereof. It shall be the duty of all prosecuting attorneys in their respective jurisdictions to prosecute all persons charged with violations of the Game Law.

Furthermore, § 37-613(3) tasks the courts with collecting liquidated damages upon conviction:

Such damages may be collected by the commission by civil action. In every case of conviction for any of such offenses, the court or magistrate before whom such conviction is obtained shall further enter judgment in favor of the State of Nebraska and against the defendant for liquidated damages in the amount set forth in this section and collect such damages by execution or otherwise. Failure to obtain conviction on a criminal charge shall not bar a separate civil action for such liquidated damages. Damages collected pursuant to this section shall be remitted to the secretary of the commission who shall remit them to the State Treasurer for credit to the State Game Fund.

A proper system of internal control requires procedures to ensure the consistent recording and collection of liquidated damages by the courts. Without such procedures, there is an increased risk of such funds being lost or not properly credited to the State Game Fund.

This issue was noted in the prior management letter.

We recommend the Supreme Court implement procedures for providing adequate guidance to the courts for following up on outstanding liquidated damages balances, ensuring that all such amounts are both recorded consistently and collected, not waived. We also recommend the Supreme Court work with the Commission to ensure an accurate listing of outstanding liquidated balances is maintained.

Supreme Court Response: The AOCF will continue our efforts to work with the Nebraska Game and Parks Commission to provide data that can be used to produce an accurate listing. Guidance to courts will also be reviewed.

* * * * *

It should be noted that this letter is critical in nature, as it contains only our comments and recommendations and does not include our observations on any strengths of the Supreme Court.

Our audit procedures were designed primarily to enable us to form an opinion on the Basic Financial Statements. Our audit procedures were also designed to enable us to report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Supreme Court and its interaction with other State agencies and administrative departments gained during our work to make comments and suggestions that we hope will be useful to the Supreme Court.

The purpose of this letter is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of State's internal control over financial reporting or compliance.

This communication is intended solely for the information and use of management, the Governor and State Legislature, others within the Supreme Court, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not suitable for any other purposes. However, this communication is a matter of public record, and its distribution is not limited.



Kris Kucera, CPA, CFE
Assistant Deputy Auditor